

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON THE KGATELOPELE LOCAL MUNICIPALITY  
REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the financial statements of the Kgatelopele Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

**Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor-General's responsibility**

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis for disclaimer of opinion**

**Property, plant and equipment**

4. The municipality did not review the residual values, useful lives and depreciation method of property, plant and equipment at each reporting date in accordance with Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*, and did not assess whether there is any indication that its property, plant and equipment may be impaired in accordance with GRAP 26, *Impairment of cash-generating assets*, for the current and prior financial year. I have not determined the correct net carrying amount of infrastructure assets as it was impracticable to do so. In addition, I was also unable to obtain sufficient appropriate audit evidence to confirm the balance of property, plant and equipment disclosed as R76 675 034 (2010-11: R133 926 569) in note 3 to the financial statements. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for property, plant and equipment

**Accumulated surplus**

5. The municipality did disclose the detail of the restatements made for prior year errors as required by GRAP 1, *Presentation of Financial Statements* and GRAP 3, *Accounting policies, changes in accounting estimates and errors*. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of accumulated surplus amounting to R73 666 897 (2010-11: R136 535 747) as disclosed in the statement of financial position

and in the statement of changes in net assets due to supporting documentation that could not be obtained for the movement in the balance in the comparative figures, as well as the limitation on other balances in the statement of financial position. The municipality's records and information available did not permit the application of alternative procedures. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for accumulated surplus.

#### **Expenditure**

6. I was unable to obtain sufficient appropriate audit evidence to confirm the amount of expenditure disclosed as R46 133 374 (2010-11: R19 665 569) in the statement of financial performance due to an inadequate system to account for expenditure, the management of the filing system not functioning effectively and transactions being recorded when payment is made instead of being recorded when goods and services are received. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for expenditure.

#### **Revenue from exchange and non-exchange transactions**

7. I was unable to obtain sufficient appropriate audit evidence to confirm the amount of revenue disclosed as R44 497 194 (2010-11: R51 458 420) in the statement of financial performance due to an inadequate system of internal control to account for revenue, the management of the filing system not functioning effectively and services not calculated and charged on a monthly basis. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for revenue.

#### **Trade and other receivables**

8. The municipality did not measure consumer debtors at amortised cost in accordance with GRAP 104, *Financial Instruments: Recognition and measurement* and did not recognise the provision for impairment loss in accordance with IAS 39, as the basis for the calculation of the impairment does not comply with the stipulations of IAS 39 and did not differentiate between long term and short term receivables in accordance with GRAP 1. The municipality did not comply with these requirements in the current and prior year. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the balance of consumer debtors disclosed as R12 281 983 (2010-11: R16 997 099) in note 4, 5 and 6 to the financial statements. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for consumer debtors.

#### **Contingent liabilities**

9. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of contingent liabilities disclosed as R10 300 000 (2010-11: R0) in note 32 to financial statements due to the lack of legal confirmations on pending claims and claims not disclosed. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for contingent liabilities.

#### **Unspent conditional grants and receipts**

10. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of unspent conditional grants disclosed as R10 110 509 (2010-11: R3 606 122) in note 9 to the financial statements due to the lack of accurate reconciliations between the opening

balance of unspent grants and the balance unspent at the end of the financial year. In addition, documentation to establish if all transactions took place according to the conditions of each grant and whether the expenditure against the grants should have been transferred to revenue in the statement of financial performance could not be supplied. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amounts disclosed for unspent conditional grants and receipts.

#### **Unauthorised expenditure**

11. I was unable to obtain sufficient appropriate audit evidence to confirm the amount of unauthorised expenditure disclosed as R8 017 144 (2010-11: R0) in note 38 to the financial statements due to the lack of evidence that management has properly identified, investigated and recorded all unauthorised expenditure transactions during the current and prior year, the limitations placed on the scope of the work performed relating to expenditure and the lack of a proper system of internal control to support and account for and identify unauthorised expenditure. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for unauthorised expenditure.
12. The unspent conditional grants and receipts balance was not represented by cash and cash equivalents at year end which indicates that the conditional grants and receipts funds were used to defray operating expenditure, thereby falling into the definition of irregular expenditure.

#### **Cash and cash equivalents**

13. During 2010/11 I was unable to obtain sufficient appropriate audit evidence about cash and cash equivalents reflected of R7 758 307 as disclosed in note 7 to the financial statements. I was unable to confirm the cash and cash equivalents by alternative means. Consequently I was unable to determine whether any adjustments to this amount and retained earnings were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

#### **Commitments**

14. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of commitments disclosed as R7 539 485 (2010-11: R0) in note 31 to financial statements due to the lack of a proper contract management system for the identification and recognition of contracts, a complete contract register or any other documents to enable me to quantify the commitments. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for commitments.

#### **Borrowings**

15. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of borrowings of R6 132 289 (2010-11: R6 907 130) as disclosed in note 8 to the financial statements due to loan agreements, monthly statements or correspondence with the finance provider and minutes of the meetings not provided. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for borrowings.

### **Trade and other payables**

16. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of trade and other payables disclosed as R3 919 801 (2010-11: R7 594 605) in note 11 to the financial statements due to an inadequate system of internal control to account for trade and other payables. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for trade and other payables.

### **Irregular expenditure**

17. I was unable to obtain sufficient appropriate audit evidence to confirm the amount of irregular expenditure disclosed as R1 318 230 (2010-11: R0) in note 39 to the financial statements due to the lack of evidence that management has properly identified, investigated and recorded all irregular expenditure transactions during the current and prior year, the limitations placed on the scope of the work performed relating to expenditure and the lack of a proper system of internal control to support and account for and identify irregular expenditure. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for irregular expenditure.

### **Taxes**

18. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of Value-added tax (VAT) payable of R1 305 658 (2010-11: R1 923 605) as disclosed in note 12 to the financial statements due to an inadequate system of internal control to account for VAT and reconciliations not performed. In addition, cases were identified where input VAT was erroneously claimed. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for VAT payable.

### **Prepayments**

19. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of prepayments disclosed as R959 103 (2010-11: R1 129 354) in the statement of financial position due to an inadequate system to account for prepayments and the management of the filing system not functioning effectively. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the balance disclosed for prepayments.

### **Employee benefits**

20. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of bonus and long service bonus provision disclosed as R638 075 (2010-11: Receivable of R470 414) in the statement of financial position, and the related disclosure in note 10 to the financial statements due to an inadequate system to account for bonus and long service bonus provision and the management of the filing system not functioning effectively. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for bonus and long service bonus provision.
21. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of leave provision disclosed as R801 699 (2010-11: R706 089) in the statement of financial position, and the related disclosure in note 10 to the financial statements due to an inadequate system to account for leave provision and the management of the filing system not functioning effectively. I was unable to confirm the amount disclosed by alternative means.

Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for leave provision.

### **Provisions**

22. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of landfill site rehabilitation provision disclosed as R490 000 (2010-11: R490 000) in the statement of financial position, and the related disclosure in note 10 to the financial statements due to an inadequate system to account for landfill site rehabilitation provision and an independent valuer's estimation for the costs required to settle the municipality's present obligation not provided. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for landfill site rehabilitation provision.

### **Consumer deposits**

23. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of consumer deposits disclosed as R272 075 in the statement of financial position, and the related disclosure in note 13 to the financial statements due to the lack of evidence that management has properly charged and accounted for all consumer deposits. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the balance disclosed for consumer deposits.

### **Investment property**

24. The municipality did not disclose investment property separately and in accordance with GRAP 16, *Investment property*. The municipality did not comply with these requirements in the current and prior year. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the balance of investment property disclosed as R0 (2010-11: R0) in the financial statements due to an inadequate system of internal control to account for investment property and the management of the filing system not functioning effectively. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for investment property.

### **Leases**

25. GRAP 13, *Leases*, requires a lease to be classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. The municipality is party to a number of lease agreements which constitute finance leases, which have not been accounted for as finance leases for the current and prior year. As the relevant information was not available I was not able to quantify the total extent by which the property, plant and equipment, long-term liabilities, the current portion of long-term liabilities and accumulated surplus were misstated if GRAP 13 had been applied correctly.

### **Intangible assets**

26. The municipality did not disclose intangible assets separately in the financial statements and also did not include an accounting policy for intangible assets in accordance with GRAP 102, *Intangible assets*. The municipality did not comply with these requirements in the current and prior year. I was unable to confirm the amount disclosed by alternative means due to the limitations placed on my work. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed for intangible assets.

### **Inventory**

27. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of inventory disclosed as R0 (2010-11: R0) in the financial statements due to an inadequate system of internal control to account for inventory and the management of the filing system not functioning effectively. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for inventory.

### **Cash flow statement**

28. I was unable to obtain sufficient appropriate audit evidence to determine whether the cash flow statement and the related notes were fairly stated for the current and prior year. Taking into account the misstatements and scope limitations identified in the financial statements, as set out in this report, I was unable to practically quantify the misstatements in the cash flow statement and notes thereto. Consequently, I was unable to determine whether any further adjustments were necessary to the cash flow statement and related notes.

### **Related parties**

29. The municipality did not disclose the remuneration of key management personnel in accordance with the International Public Sector Accounting Standard (IPSAS) 20, *Related-party disclosures*. The remuneration of key management personnel should be disclosed in total and for each of the following categories: short-term employee benefits; post-employment benefits; other long-term benefits; termination benefits and share-based payments. Contrary to these requirements, the municipality did not disclose the related-party transactions for the current year that relates to the compensation of councillors and key management personnel.

### **Fruitless and wasteful expenditure**

30. I was unable to obtain sufficient appropriate audit evidence to confirm the amount of fruitless and wasteful expenditure disclosed as R0 (2010-11: R0) in the financial statements due to the lack of evidence that management has properly identified, investigated and recorded all fruitless and wasteful expenditure transactions during the current and prior year, the limitations placed on the scope of the work performed relating to expenditure and the lack of a proper system of internal control to support and account for and identify fruitless and wasteful expenditure. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for fruitless and wasteful expenditure.

### **Distribution losses**

31. Section 125(2)(d)(i) of the MFMA requires that the financial statements of a municipality must disclose particulars of any material losses. Distribution losses were incorrectly disclosed in the notes to the financial statements for the current financial year and no comparative amounts were disclosed due to the municipality not implementing adequate control measures to reliably calculate these losses. In the absence of sufficient appropriate documents, I was unable to determine the total extent of the understatement in distribution losses.

### **Financial instruments**

32. IFRS 7 requires the disclosure of information on liquidity risks, maturity analysis, sensitivity analysis and credit risk exposure relating to financial instruments. Contrary to the minimum disclosure requirements, the municipality's exposure to financial risks and how these risks were mitigated were not disclosed in the financial statements.
33. Furthermore, the municipality did not disclose gains or losses on financial instruments, trade receivables past due but not impaired, as well as the factors that the municipality considered in determining impairment as required by IFRS 7.

### **Budget**

34. The municipality did not disclose the presentation of a comparison of the budget amounts and actual amounts in accordance with GRAP 24, *Presentation of budget information*. I was unable to confirm the amount disclosed by alternative means due to the limitations placed on my work.

### **Other statutory disclosure**

35. Section 125(1)(c) of the MFMA states that the notes to the annual financial statements of a municipality must include the total amounts paid in levies, duties and pension and medical aid contributions and whether any amounts were outstanding as at the end of the financial year. In contravention with this section, the total amounts paid in levies, duties and pension and medical aid contributions and whether any amounts were outstanding as at the end of the financial year were not disclosed in the notes to the annual financial statements.

### **Financial sustainability**

36. As a result of the matters described in the basis for disclaimer of opinion paragraphs, the municipality may be in a worse financial position than the position reflected in these financial statements. The difficulties being experienced by the municipality in recovering its consumer debtors, the potential negative effect of this tendency on the cash flows of the municipality and the inability to settle accounts payable within an acceptable period indicate that there is a risk that the municipality may be exposed to serious financial difficulties in terms of section 138 of the MFMA. The financial statements did not disclose any details of the uncertainty as per note 36 to the financial statements and have been prepared on a going concern basis. The municipality's accounting records did not provide sufficient appropriate audit evidence that the municipality is able to continue as a going concern.

### **Disclaimer of opinion**

37. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

### **Emphasis of matters**

38. I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Restatement of corresponding figures**

39. As disclosed in note 33 and 34 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 30 June 2012 in the financial statements of the municipality at, and for the year ended, 30 June 2011.

### **Material impairments**

40. As disclosed in note 22 to the financial statements, material losses to the amount of R5 151 474 (2010-11: Credit R8 305 366) were incurred as a result of an increase and decrease in the provision for impairment relating to the recoverability of consumer debtors respectively.

### **Material underspending of the conditional grant**

41. As disclosed in note 17 to the financial statements, the municipality have materially underspent the budget on the municipal infrastructure grant to the amount of R9 699 657. As a consequence, the municipality has not achieved its objectives of providing infrastructure for service delivery.

### **Additional matters**

42. I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Material inconsistencies in other information included in the annual report**

43. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

### **Unaudited supplementary schedules**

44. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

45. In accordance with the PAA and the General Notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

46. I was unable to conduct the audit of performance against predetermined objectives as the municipality did not submit the annual performance report as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and section 121(3)(c) of the MFMA.

### **Compliance with laws and regulations**

47. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### **Strategic planning and performance management**

48. The municipal council did not review its integrated development plan annually in accordance with an assessment of its performance measurements in terms of section 41 and to the extent that changing circumstances demanded, as required by section 34 of the MSA and Municipal Planning and Performance Management Regulation 3.
49. The municipality did not establish a performance management system that is in line with the priorities, objectives, indicators and targets contained in its IDP, did not clarify the roles and responsibilities of each role player in the functioning of the system, did not determine the frequency of reporting and the lines of accountability for performance, did not relate to the municipality's performance management processes and did not provide for procedures by which the system is linked to the municipality's integrated development planning processes, as required by section 38(a) of the MSA and MPPM Regulations 7(2)(c), (e), (f) and (g).
50. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.

#### **Budgets**

51. The 2011/2012 annual budget was not approved by the council before the start of the financial year, as required by section 16(1) of the MFMA.
52. Expenditure was incurred that was in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of sections 15 of the MFMA.
53. Sufficient appropriate audit evidence could not be obtained that quarterly reports were submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
54. Unforeseeable expenditure not provided for in the annual budget was incurred without being appropriated in an adjustment budget, in contravention of section 29(2)(d) of the MFMA.
55. Monthly budget statements were not submitted to the Mayor and relevant provincial treasury, as required by section 71(1) of the MFMA.
56. The accounting officer did not assess the first half of the financial year performance of the municipality, as required by section 72(1) and 72(1)(a)(ii) of the MFMA.

#### **Annual financial statements, performance and annual reports**

57. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
58. The accounting officer did not submit the financial statements for auditing within two months after the end of the financial year, as required by section 126(1)(a) and 126(2) of the MFMA.

59. Late submission of the annual financial statements to the auditor-general for auditing was not appropriately addressed by the mayor and the municipal council, as required by section 133(1) of the MFMA.
60. The 2010/2011 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
61. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2010/11 annual report in the council, as required by section 127(3) of the MFMA.
62. The accounting officer did not make the 2010/11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
63. The municipal council did not adopt an oversight report, containing comments on the annual report, within two months from the date on which the 2010/2011 annual report was tabled, as required by section 129(1) of the MFMA.
64. The annual performance report for the financial year under review was not prepared, as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

#### **Audit committees**

65. An audit committee was not in place, as required by section 166(1) of the MFMA.

#### **Internal audit**

66. An internal audit unit was not established, as required by section 165(1) of the MFMA.

#### **Procurement and contract management**

67. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
68. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
69. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
70. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
71. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
72. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
73. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).

74. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
75. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
76. Sufficient appropriate audit evidence could not be obtained that awards were not made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
77. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
78. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of Preferential Procurement Policy Framework Act.
79. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
80. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
81. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
82. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
83. Sufficient appropriate audit evidence could not be obtained that awards were not made to providers who are persons in the service of the municipality or whose directors or principal shareholders are persons in service of the municipality in contravention of SCM regulations 44.
84. Sufficient appropriate audit evidence could not be obtained that awards were not made to providers who are persons in service of other state institutions or whose directors or principal shareholders are persons in service of other state institutions, in contravention of SCM regulations 44.
85. Sufficient appropriate audit evidence could not be obtained that persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality disclosed such interest, as required by SCM regulation 46(2)(e) and the code of conduct for councillors issued in terms of the MSA and the code of conduct for staff members issued in terms of the MSA.
86. Sufficient appropriate audit evidence could not be obtained that persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality disclosed such interest, as required by SCM regulation 46(2)(e) and the code of conduct for councillors issued in terms of the MSA and the code of conduct for staff members issued in terms of the MSA.

87. Sufficient appropriate audit evidence could not be obtained that SCM officials and other SCM role players who or whose close family members or partners or associates had a private or business interest in contracts awarded by the municipality did not participate in the process relating to that contract, in contravention of SCM regulation 46(2)(f).
88. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).
89. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as all the required supporting documentation was not provided for audit purposes.

#### **Human resource management and compensation**

90. The competencies of financial officials and supply chain management officials were not assessed promptly in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels regulation 13.
91. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels reg14(2)(a).
92. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels regulation 14(2)(b).
93. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) MSA.

#### **Expenditure management**

94. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
95. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred or accounted for creditors or accounted for payments made, as required by section 65(2)(b) of the MFMA.
96. The accounting officer did not take reasonable steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
97. Unauthorised, irregular and fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.

#### **Conditional grants**

98. Quarterly reports were not submitted to the transferring national officer and the National Treasury on municipal performance for the quarter against the targets stipulated in the infrastructure performance framework, within 30 days after the end of each quarter, as required by section 11(2)(c)(ii) of the Division of Revenue Act.
99. The municipality's annual financial statements and annual report did not include reports against programmes funded by the Schedule 4 allocation against the relevant framework, as required by section 11(5) of the Division of Revenue Act.

100. Unspent conditional grant funds was not approved by the National Treasury for retention, were not surrendered to National Revenue Fund, as required by section 20(1) of the Division of Revenue Act.
101. The municipality did not submit a draft performance framework submitted by 30 March 2011 and a the final approved performance framework by 07 June 2011, the Human Settlement and built environment performance framework and proof that the performance framework and the performance targets have been ratified by a municipal council resolution prior to receipt of its first instalment of the grant allocation, as required by the Division of Revenue Grant Framework, Gazette No.34280.
102. The municipality did not submit the 2010/11 annual reports to national department of human settlement on or before 30 September 2011 and National Treasury by 15 December 2011, as required by the Division of Revenue Grant Framework, Gazette No.34280.
103. The municipality did not submit quarterly performance reports to the transferring national officer, and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the Division of Revenue Act.
104. The municipality did not evaluate its performance in respect of programmes funded by the allocation and submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(6) of the Division of Revenue Act.
105. The municipality did not timeously submit project registration forms, for projects it intended implementing in the financial year under review, to the department of local government, as required by the Division of Revenue Grant Framework, Gazette No.34280.
106. The municipality did not submit project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.34280.
107. The municipality did not submit MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the Division of Revenue Grant Framework, Gazette No.34280.

#### **Revenue management**

108. A credit control and debt collection policy was not adopted, maintained and implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.
109. An adequate management, accounting and information system was not in place which recognised revenue when it was earned and accounted for debtors, as required by section 64(2)(e) of the MFMA.
110. Sufficient appropriate audit evidence could not be obtained that revenue due to the municipality was calculated on a monthly basis, as required by sections 64(2)(b) and 97(e) of the MFMA.
111. Interest was not charged on all accounts in arrears as, required by section 64(2)(g) of the MFMA.
112. Sufficient audit evidence could not be obtained that revenue had been reconciled on a weekly basis, as required by sections 64(2)(h) of the MFMA.

#### **Asset management**

113. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

114. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

#### **Liability management**

115. A management, accounting and information system which adequately accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
116. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.
117. Long-term debt was incurred without a resolution of the municipal council approving the debt agreement, in contravention of section 46(2) of the MFMA.

#### **Environmental**

118. The municipality operated their waste disposal site without a waste management licence or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) and section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989).

#### **Internal control**

119. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

120. The accounting officer position was vacant for part of the year under review and the chief financial officer position was vacant for part the year under review.
121. The acting accounting officers did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management members had met their responsibilities in terms of preparing bank reconciliations, ensuring proper records management, maintaining an asset register and preparing the annual financial statements.
122. The acting accounting officers and senior management did not take timeous and adequate action to address weaknesses in the finance and supply chain management, which resulted in non-compliance with applicable legislation and gave rise to unauthorised, fruitless and wasteful and irregular expenditure.
123. The acting accounting officers and senior management of the municipality did not ensure that internal control procedures were developed, implemented and monitored to ensure that daily disciplines were performed and reviewed.
124. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident by the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report being recurring in the current year.
125. The acting accounting officers and senior management failed to implement adequate controls to ensure compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

## Financial and performance management

126. Effective performance systems, processes and procedures as well as the management thereof had not been adequately developed and implemented, which resulted in the annual performance report not being prepared and submitted and financial statements being submitted late.
127. Inadequate filing procedures at the municipality resulted in limitations of scope during the current and previous year's audits. As a result significant difficulties were experienced in respect of the availability of information.
128. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing. This resulted in many findings relating to incorrect disclosure.
129. The municipality did not have the capacity to address backlog issues and financial system problems, resulting in the need to appoint consultants. Consultants assisted with the preparation of an asset register and financial statements.
130. Finance staff had an insufficient understanding of the accounting framework. This contributed towards the numerous qualifications in the financial statements of the municipality.
131. Regular, accurate and complete financial reports were not compiled and reviewed by the finance unit of the municipality that were supported and evidenced by reliable information.

## Governance

132. The financial statements contained numerous inaccuracies, which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting, and weaknesses in the information systems.
133. Internal control deficiencies were not identified and communicated in a timely manner to allow for corrective action to be taken. The implementation of external audit recommendations was not monitored. This resulted in the prior year audit findings not being substantially addressed.
134. Management did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
135. An audit committee, internal audit and performance audit committee was not in place for the financial year.

*Clifford - General*  
Kimberley

13 June 2013



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*